Yukon Development Corporation

energy solutions centre

2003 Annual Report

105-01725/

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MESSAGE FROM THE CHAIR/CHIEF EXECUTIVE OFFICER

This was a productive but in some ways difficult year for the Yukon Development Corporation and its subsidiary the Energy Solutions Centre.

An audit of the Energy Solutions Centre's 2003 finances indicates a number of concerns with regards to clear and proper financial reporting and practices. Some of these concerns I had expressed myself upon assuming the job of Chair and CEO, and even before seeing the audit I had taken steps to strengthen internal control systems, streamline operations and enhance financial reporting practices. Obviously the audit's findings are very disconcerting to me and I will continue to work diligently to ensure the Energy Solutions Centre operates in a transparent and accountable fashion.

On the positive side, one of the highlights in 2003 was the Yukon International Wind Conference. It was hosted by Yukon Development and the Energy Solutions Centre, along with YDC's other subsidiary Yukon Energy. The conference provided a unique opportunity for more than 100 delegates from Canada, Australia, France, Finland and the United States to share advances in cold climate technology.

Our efforts in the energy management field continued to increase over the past year with such programs as our fridge exchange project, which led to more than 100 Yukon households switching to new ENERGY STAR®-labeled refrigerators, and our House Calls Energy Efficiency Program, which reached 1500 households in 18 communities.

This year we also continued with our Green Building Design and Support service. In 2003 the service was involved in highly targeted public education and outreach, offering developers project-specific advice, technical support and planning assistance. We also developed and signed a Yukon Municipal Energy Solutions Partnership MOU with community and government partners to facilitate community energy management planning and initiatives to reduce energy costs and greenhouse gas emissions.

Our successes have helped to establish the Yukon as a recognized leader in greenhouse gas reduction and, increasingly, as a delivery template for duplication in other territories and provinces. In fact, for the second year in a row the Yukon Development Corporation this year earned gold medal status among only 100 or so companies in Canada for our greenhouse gas emission reduction action plan, which we filed with the National Voluntary Climate Change Registry. Also this year, YDC was awarded a national energy efficiency award for outreach for our community-based house call program.

As part of our commitment to the people and communities we serve, we worked in cooperation with Yukon Energy to award scholarships to six outstanding post-secondary students in 2003, and we are working with the Nacho Nyak Dun and Tr'ondek Hwech'in First Nations to develop and implement an apprenticeship benefit.

Internally, part of this year was spent reviewing the corporate structure and governance of YDC and its subsidiaries. This work will continue into 2004 with a proposal to the Yukon government for changes that will include three underlying principles: increased accountability, simplicity and transparency.

I would like to take this opportunity to thank Yukoners for their support this year, and to assure them that we are committed to delivering an excellent product and service.

ORGANIZATIONAL OVERVIEW

Yukon Development Corporation (YDC) is a crown corporation created in 1986 by the *Yukon Development Corporation Act*. It is governed by a Board of Directors appointed by the Yukon government and has a legislative mandate to participate with the private sector in the economic development of the Yukon. In particular, the Act mandates the corporation to:

- Develop and promote the development of Yukon resources on an economic and efficient basis;
- Promote employment and business opportunities for territorial residents;
- Assure a continuing and adequate supply of energy in a manner consistent with sustainable development; and
- Implement development policy directives issued to it by the Yukon Cabinet.

Order-in-Council 1993/07 restricted the corporation's role to energy-related activities designed to promote the economic development of the Yukon, and to:

- Assure a continuing and adequate supply of energy;
- Alleviate the effects of any energy shortage that may occur; and
- Promote the establishment, development and operation within the Yukon of industries or undertakings that are by their nature energy-dependent through the provision of cost-effective energy or energy-related infrastructure.

Together with its two wholly-owned subsidiaries, Yukon Energy and the Energy Solutions Centre, YDC invests in energy infrastructure planning and development, conducts research, and designs, delivers and coordinates energy programs and services.

The corporation's four core business lines are:

1. Stewardship
Yukon Development is a major participant in the energy sector, speaking to energy industry perspectives, while implementing public policy. In this role, the corporation seeks to minimize the environmental impact of activities related to energy supply and use and to facilitate future sustainable energy developments.

As a sole shareholder of Yukon Energy and the Energy Solutions Centre, the corporation provides support and guidance to these subsidiary companies.

2. Development of the Yukon's energy sector
Yukon Development plays a key role in managing the risks of developing energy infrastructure while protecting consumers and ratepayers from adverse rate impacts. In working to achieve this balance, the corporation facilitates the development of services in rural and isolated areas, and helps Yukon people, communities and organizations to develop the capacity and skills they need to participate in the development of the energy sector in the territory.

3. Transforming the Yukon's energy market
Yukon Development has a strong role in Yukon climate change strategies and recognizes the importance of greenhouse gas emission reductions as a future business driver and a factor in the economy and consumer choice.

Investments in energy efficiency and renewable solutions promise to lower costs for consumers and reduce power generation expenses for utilities, for the long-term benefit of ratepayers, with accompanying environmental benefits.

The Yukon and federal governments are placing considerable importance on implementing energy programs that meet broader public policy objectives. The Yukon Development Corporation has a key role in helping to meet those objectives.

4. Managing assets, investment and business development
A fundamental responsibility of Yukon Development Corporation is to support its two subsidiary corporations (Yukon Energy Corporation and Energy Solutions Centre). Yukon Development Corporation must also be accountable to the minister, the Yukon Legislative Assembly and the public.

Considerable efforts were made this year to review the corporate structure and governance of YDC and its subsidiaries. This work will continue into 2004 with a proposal to the Yukon government for changes that will incorporate three underlying principles: increased accountability, transparency and simplicity.

VISION

Yukon Development Corporation is the recognized steward for territorial energy self-sufficiency through sustainable, cost-effective, reliable, renewable and integrated energy solutions for Yukon consumers. The corporation works with utilities, business, industry, Yukon First Nations, communities, non-government organizations and public governments to enhance regional competitiveness, community development and economic diversification.

YDC sets the regional standard in the energy sector, for consumer choice, environmental citizenship, innovation, and development of indigenous capacity to meet existing and future energy challenges.

Our business respects and balances territorial interests in energy, the environment and the economy through a rigorous approach to sustainable development and sound business practices.

MISSION

To provide the best-priced integrated energy solutions and services for Yukon consumers in the most environmentally and socially responsible manner.

VALUES

In the achievement of its mission, the corporation will be guided by its values. These values focus on:

Citizen-centred stewardship: We strive to provide energy solutions that meet the needs of Yukon consumers, communities, the economy and the environment. To this end, we seek cooperative relationships and joint ventures with Yukon First Nations, communities, utilities, public governments and the private sector to further mutual objectives.

Integrity: Our actions match our words.

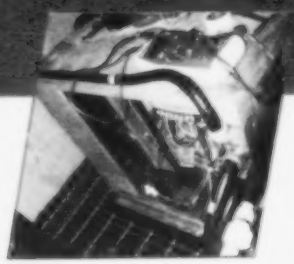
Sustainability: We strive to incorporate into our actions the principles of environmental and economic sustainability.

Commitment: We are committed to acting in the best interests of Yukon energy consumers.

Local capability: We believe in developing the overall capacity of Yukon people, businesses and communities to participate in the growth of the energy sector.

Innovation: We focus on initiatives that are relevant to the changing needs and expectations of our customers. In doing so, we encourage responsible risk-taking and creative thinking, learning from and building on successes and failures.

Accountability: We strive to achieve our goals and we accept responsibility for the effectiveness with which we employ our financial and human resources to achieve those goals and for the way in which we communicate our successes and failures to our shareholder.



OPERATIONAL HIGHLIGHTS

Key Operational Activities and Issues

2003 was a busy year for Yukon Development Corporation and the Energy Solutions Centre. Some of the highlights of our project and service efforts are discussed below.

Village of Haines Junction Heating Project

As a result of the discovery of a warm water artesian well underlying the community in the fall of 2002, the Solutions Centre continues to work with the Village of Haines Junction to promote the use of geothermal technologies to heat buildings.

To develop the business case for the optimum distribution of heat from the warm water well, a resource assessment has been completed and a demand side analysis (inventory of structures and their energy consumption profiles) is underway. To finance the work required to move this project forward, the Energy Solutions Centre helped make funding applications to both the Federation of Canadian Municipalities under the Green Municipal Enabling Fund and the Canadian Geoexchange Coalition. Both of these applications for funding have now been approved.

Future pre-engineering work will take the project to the schematic design stage for those applications that have a positive business case.

Vanier Catholic Secondary School Heat Pump Project

In order to prove the feasibility of ground source heat pump technology in Whitehorse, the Energy Solutions Centre began looking for a building in the Riverdale subdivision that could be used to show the effectiveness of the technology and the cost-savings that result from its use.

Because of its location and relatively good physical condition, the Vanier Catholic Secondary School was selected as the location for the pilot project. The plan is to adapt the heating system of the school to incorporate Ground Source Heat Pump technology.

To date, a hydrogeological assessment of the two hot water aquifiers that flow underground at the Vanier site has been done. With the results of the assessment, Energy Solutions Centre is pursuing preliminary engineering, revised cost estimating for the project and water licensing. All activities are being completed in partnership with the Yukon Government Department of Education.

Village of Mayo Heating Project

In the 1980s, a heat pump was installed in the Village of Mayo to use energy from groundwater to heat the buildings on the main street of the village. The project failed due to several problems:

1. **Incompatibility** - of the heat pump and space heating systems. The space heating system was designed for an oil-fired system and could not operate properly at the lower temperature provided by the heat pumps;
2. **Incorrect heat pumps** - The project utilized Florida heat pumps, which are better suited for cooling than heating;
3. **Power quality issues** - Keno Hill Mine was operating, and the electric motor starts for the operation could have affected power quality.
4. **Water quality** - The water is very hard, which caused scaling of the well head and other components, as well as corrosion of the metal fittings.

These problems are now well understood and methods have been developed to cost-effectively resolve them.

The Energy Solutions Centre has been involved in preliminary discussions with the current village administration. The goal of these discussions is to create a joint venture with the village in order to obtain federal funding to study the resource and buildings, and to develop a business case for a new heat pump system. To date, discussions have been held with village officials, and a joint venture agreement has been presented to the community.

Fridge Exchange Program

Results of a consumer survey commissioned by Yukon Development Corporation showed clearly that many

major appliances in the Yukon were old and thus less energy efficient than more recently manufactured models. This data provided an opportunity to reduce household energy costs, reduce use of diesel-generated electricity, enhance the long-term efficiency of power demand in the territory and reduce greenhouse gas emissions.

The Fridge Exchange Program, which started June 2002 and is scheduled to conclude March 2004, was designed to respond to these opportunities by providing incentives to Yukoners to replace refrigerators that were more than 10 years old with significantly more efficient new ENERGY STAR® rated models.

The incentives provided through the program included:

- In hydro-power communities, free delivery of new refrigerator and removal of old one.
- In diesel-power communities, free delivery of new refrigerator and removal of old one, plus a $200 rebate.
- Safe freon removal and recycling of old refrigerator.

One of the most notable effects of the program occurred on the supply side of the market. At the beginning of the program, there was a very small variety of qualifying appliances available – which slowed initial uptake on the project. However, by working with all Yukon appliance retailers and demonstrating the viability of providing greater choice in the ENERGY STAR® line of appliances, the choice expanded significantly to meet growing demand. Due largely to consumer education efforts made through this program, demand for ENERGY STAR® rated appliances of all kinds increased significantly. More than 650 ENERGY STAR® units sold between April and November of 2003. A conservative estimate of the reduction in overall greenhouse gas emissions that has resulted from this project is 50 tonnes of CO_2 annually.

As a result of these efforts, the Energy Solutions Centre was invited to be a major participant and presenter at the Energy Star conference held in Ontario in 2003.

This project is currently being used as a template for other jurisdictions of Canada.

House Calls Energy Efficiency and Climate Change Education Program

The House Calls Energy Efficiency and Climate Change Education Program began as a pilot project in 1999 by Yukon Development, Yukon Energy and the Yukon Conservation Society.

The purpose of the program was twofold:

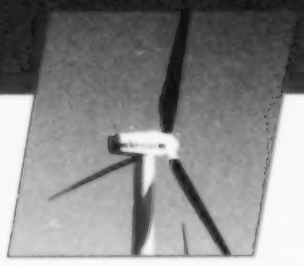
- To reduce residential electricity demand, primarily in rural communities dependent on diesel-generated power, by informing households about practical and affordable measures; and
- To illustrate residential energy efficiency solutions and to demonstrate the link between energy use and climate change.

Through the program, a local energy technician provided a free hot water tank wrap and a low-energy compact fluorescent light bulb to 100 homes in Whitehorse and 25 residences in Dawson City. The technician also provided information to residents on energy efficiency and climate change via a home maintenance poster, tips on lifestyle choices and a demonstration of residential energy efficiency technologies available locally.

Due to the overwhelming success of the pilot program, the scope of the program was broadened and the original partnership was expanded to include Natural Resources Canada, The Yukon Electrical Company Limited, Yukon Housing Corporation and the City of Whitehorse.

The program ended on schedule in 2002, but in 2003, YDC, Yukon Energy and the Yukon Conservation Society were awarded a national energy efficiency award for outreach for our efforts in the House Call program.

In the end, more than 1,600 Yukon households in 18 communities were served through the program. As a result of changes made, consumer savings on annual electrical bills are forecasted at more than $320,000 and average annual savings per household are estimated at more than $215.



Territorial Groundwater Assessment and Database

Despite the thousands of water wells drilled in the Yukon over the years for drinking water and industrial developments until recently the Yukon (unlike most jurisdictions) did not have any form of central water well registry. This has meant that information on groundwater conditions, such as location, depth, capacity, quality and temperature has been very difficult to find.

In an effort to resolve this, the Energy Solutions Centre has recently begun to develop a new Yukon-wide well log registry by:

- Purchasing decades of data in the form of historical well logs from one of the Yukon's main well drillers;
- Arranging for that driller to provide information from future drilling;
- Requesting drilling information from other drillers throughout the territory; and
- Obtaining data from municipal water well records.

Although the Energy Solutions Centre is primarily interested in the energy potential of each well (the temperature and flow rates), Centre staff are collecting a broader range of data so that communities, governments and industry can benefit from one central and comprehensive source of information. The data will be made available at a nominal cost to communities and individuals who wish to conduct preliminary assessments of the potential for using groundwater to provide heat for buildings. This approach is considerably more cost efficient than would be the case if each party was required to research the specific data they might need for their planning decisions.

Wind Research and Development Program

Working in partnership with the Yukon Energy Corporation, the Yukon Development Corporation continues to advance the territory's wind energy program in several ways.

The Wind Research and Development program adapts wind energy technology for cold climates in order to displace existing community diesel-electric generation and to help meet future energy requirements through renewable resources. The ongoing development of wind energy builds on Yukon Energy's success and national recognition for installing, adapting and operating wind turbines in northern, cold climate environments. The program supports:

- testing and adapting wind turbines for cold climate conditions;
- commercial-scale wind resource monitoring in areas where exploitation appears economic and feasible;
- long-term efforts to develop a Yukon wind energy resource atlas, combining the best in local wind resource monitoring with national atmospheric modelling capabilities;
- joint venture initiatives with Yukon First Nations and national experts to advance projects that can displace diesel-electric generation, including work with wind/diesel hybrid system controls that ensure reliable customer service;
- research and development activities respecting cold climate instrumentation and blade heating and other techniques resolving rime icing and unique cold climate operating conditions;
- wind energy projects through the Green Power Installation and Production Incentive Program and other initiatives;
- public education and awareness activities;
- exploration of consumer choice options that facilitate

the development and financing of wind energy alternatives;

- regional, national and international research and information sharing and collaboration on cold climate wind energy opportunities and solutions, such as the Yukon International Wind Conference held in Whitehorse in May 2003. Approximately 100 delegates attended this conference, which focused on opportunities for cold climate wind generation. The event was highly successful in terms of raising the profile of wind energy in the North and increasing cooperation between northern partners and jurisdictions.

Green and Appropriate Northern Design Service

The Energy Solutions Centre provides the Green and Appropriate Northern Design Service on behalf of Yukon Development and in cooperation with the Office of Energy Efficiency, Natural Resources Canada. Proper building design that employs integrated design practices is critical to reducing ongoing operation and maintenance costs and can help to keep capital costs down as well. To that end, the Green and Appropriate Northern Design Service seeks to work with design professionals and contractors to:

- facilitate the design and construction of new facilities that have the lowest operating costs and exhibit environmental responsibility;
- optimize the use of integrated energy solutions, particularly renewable energy technologies using local and sustainable energy resources;
- maximize use of appropriate local materials and northern-experienced builders and labour; and
- make green and appropriate design and construction the preferred choice for all new Yukon buildings.

Through client requests and proactive initiatives, the Energy Solutions Centre's Green and Appropriate Design Service provides training, information, energy modelling assistance, access to Yukon-specific design data, local considerations and case studies, sample proposal documents and guidelines and coordinated access to available national and territorial assistance where appropriate.

The service also provides general and project-specific advice to building and community developers, architects, project managers, construction company personnel, inspectors, municipal planners and sponsors of new facility and subdivision projects.

The long-term goal of the service is to help transform the local market so green and integrated building design becomes the conventional option for new facilities.

In the context of the Green Building Program, the Energy Solutions Centre has become an active participant in the development of the facilities required for the Canada Winter Games to be held in Whitehorse in 2007. Specifically, the ESC is involved in helping to ensure that both the athlete's village and the multiplex sporting facility incorporate the design concepts of sustainability and energy efficiency.

ESC has provided input through the Green Building Program to the Village of Carmacks as it works towards developing a new community centre, as well as the Nacho Nyak Dun First Nation in Mayo as it plans a new administration building, a community centre and additional residential development.

First Nations Energy Issues

The Energy Solutions Centre has placed significant emphasis on First Nation energy issues this year. The ESC worked with the Council of Yukon First Nations to assist in a territory-wide workshop for First Nations on climate change and energy efficiency. The ESC is assisting in micro-hydro assessments with Selkirk First Nation, Kluane First Nation and Carcross-Tagish First Nation (Four Mountains Resort project).

Our wind monitoring activities with First Nations included:

- Continuing our joint venture with the Vuntut Gwitchin to monitor wind regimes for potential wind power development in the Old Crow area;

- Continued work on wind power options for the Kluane First Nation in the Burwash Landing and Destruction Bay area;
- Utilizing the YDC Community Wind Resource Assessment program to monitor the Tatla Mun camp site for the Selkirk First Nation for 2003/2004;
- Wind monitoring for the Champagne and Aishihik First Nations concluded at Aishihik this year.

Other activities included:

- preliminary discussion with the White River First Nation on energy efficient designs for their planned cultural centre;
- Involvement in development of Kwanlin Dun's planned waterfront cultural centre;
- Discussion of heating system alternatives for Carcross-Tagish First Nation's new administration building;
- Presentations at the Carmacks Alternative Energy community workshop;
- Aid in planning an energy efficient community greenhouse for the Little Salmon-Carmacks First Nation.

Whitehorse Rapids Fish Hatchery Heat Pump Project

For many years, the Whitehorse Rapids Fish Hatchery building has been heated by propane. However, in the spring of 2003, a heat pump was installed to capture excess heat from the groundwater used to supply the fish tanks in order to heat the hatchery building. The new pump helps save money, increase comfort and reduce greenhouse gas emissions.

The groundwater supplying the hatchery has a constant temperature of 6 °C. The heat pump extracts heat from the groundwater to warm the building, resulting in reduced costs. The new system is anticipated to save approximately $5,000 per year.

This reduction in costs does not mean a reduction in comfort. In fact, staff at the hatchery say the new heating system makes the building more comfortable to work in, especially during the Yukon's colder winter months.

The propane system will now only be used as a back-up source of heat. As heating systems using propane emit climate changing greenhouse gases, the reduction in the use of propane will not only save a significant amount of money; it will also help to fight climate change. Since a heat pump is an electrical appliance, it qualified for Yukon Energy's Secondary Sales program, thereby saving even more money for the client.

Installing this new technology also helps demonstrate the benefits of cheaper, cleaner alternatives to burning fossil fuels. It is believed that this is the first ground source heat pump application in the Yukon.

Off-Grid Renewable Energy (RE) Project

This project was funded jointly by NRCan and the Energy Solutions Centre, and had two purposes:

1. To characterize the existing use of off-grid energy use in the Yukon;

2. To reduce fossil fuel use by off-grid consumers in the Yukon by increasing and optimizing the use of off-grid renewable energy.

The study consisted of several components. The first was a telephone survey to collect background data on the state of off-grid energy use – including sources, quantity and several other factors. The second component was a design charette, or a forum that brought together experts in renewable energies. They studied three cases, chosen from among the survey respondents, which represented a variety of energy sources and dwelling designs.

The result of their analyses were a set of options and recommendations about how to:

1. Reduce energy consumption, and

2. Increase the portion of total energy from renewable sources.

The next step in the project will be to perform tests in order to determine the benefits of implementing the recommendations.

Voluntary Challenge Registry (VCR) Gold Level Reporter Status

For the third consecutive year, Yukon Development Corporation, Yukon Energy and the Energy Solutions Centre have been awarded the Gold Level Reporter award for tracking, reporting and reducing carbon dioxide emissions. VCR Inc. is a non-profit partnership between industry and governments across Canada with the objective of helping to address climate change by promoting voluntary action.

Rate Stabilization Fund

The Rate Stabilization Fund (RSF) was created in November 1998 through an Order-in-Council pursuant to the Yukon Development Corporation Act to provide some cost protection for residential, commercial and municipal ratepayers due to the loss of Yukon Energy's largest industrial customer – the mining operation in Faro. It is funded by a $10 million contribution from the Yukon government and will continue to provide the current level of consumer subsidies until its scheduled termination date, March 31, 2005.

The RSF subsidizes residential electricity bills to a maximum of nine percent above January 1997 rates for the first 1,000 kilowatt hours per month in the winter. In summer, the subsidy has been decreased on a sliding scale beginning at 1,000 kilowatt hours until it was eliminated at 1,500 kilowatt hours a month.

General Service electricity bills, which include business and municipal consumers, have been subsidized for the first 2,000 kilowatt hours per month in winter. In summer, the subsidy has gradually declined beginning at 2,000 kilowatt hours and ends at 3,000 kilowatt hours.

In October 2003, an Order-in-Council (#2003-273) effectively restructured the RSF for residential, non-government general service, and municipal ratepayers. As per that OIC, effective April1, 2004, eligible ratepayers will continue to receive the same full subsidy in summer as they receive in winter months.

In 2003, $3,170,000 was spent on the RSF in the territory. Using monthly data, the number of customer/facilities in each rate class that received the subsidy throughout the year is as follows:

Rate Class	Average Number of Subsidy Recipients
Residential	12,521
Commercial	2,136
Municipal	211

Municipal Energy Partnership

Launched in June 2003, the Yukon Municipal Energy Solutions Partnership between the Association of Yukon Communities, the Federation of Canadian Municipalities, Yukon Department of Community Services, Yukon Development and Natural Resources Canada is an initiative to facilitate the development of integrated and renewable energy solutions for municipalities. It was also established to expand the scope of the Rural Electrification Project and thereby to significantly reduce municipal greenhouse gas emissions and energy costs.

Yukon Development, in co-operation with its national partner Natural Resources Canada, supports implementation of the initiative through the Energy Solutions Centre along with the Federation of Canadian Municipalities' Green Enabling Funds and available federal and territorial programs and services. The partnership supports integrated and renewable energy solutions in the municipal sector through work to:

- develop a municipal energy use database;
- conduct energy assessments of municipal facilities and operations;
- promote renewable energy and technologies as part of an integrated community energy management approach;
- identify prudent business cases and facilitate the implementation of energy-saving recommendations;
- sponsor proposals to the programs and special funds administered by the Federation of Canadian Municipalities;

- endorse the Federation of Canadian Municipalities' council resolution on Partners for Climate Protection;
- provide one-window access to federal and territorial energy efficiency and renewable energy programs and services;
- provide municipalities with access to financing options including leases and loans, subject to business case and program guidelines; and
- assist municipalities, through the Association of Yukon Communities, to extend rural electrification to property owners within community boundaries.

The Energy Solutions Centre is currently working with the following communities to advance municipal energy initiatives: City of Whitehorse, Villages of Carmacks, Mayo, Teslin and Haines Junction, as well as the Town of Faro.

It is anticipated that ESC will enter into similar arrangements with two more Yukon communities in the coming year. The Village of Mayo would like to study the feasibility of using warm water from the aquifer underlying the community for municipal heating, and the Town of Watson Lake wishes to expand a district heating utility.

Ducks Unlimited Partnership for Sustainable Energy Development

Yukon Development Corporation, Yukon Energy and the Energy Solutions Centre have entered into a five-year (2003-2007) initiative with Ducks Unlimited Canada. The purpose of the partnership is to work with industry stakeholders, agencies and other stakeholders to achieve sustainable energy development and energy self-sufficiency for the Yukon while sustaining the health of Yukon waters and associated wetlands and habitat.

This will be accomplished through proactive watershed conservation efforts supported by partnerships between Yukon industry, the private sector, environmental organizations, governments and communities at local, regional and national levels. The categories of joint activity, defined through annual plans include:

- land cover mapping, water chemistry, waterfowl habitat and population research and monitoring;
- public education, awareness and outreach;
- community-based and industry-supported environmental stewardship; and
- industry liaison for responsible and sustainable development.

Other Initiatives

Housing audits

The Energy Solutions Centre continues to work with the Yukon Housing Corporation in an effort to have appliances included in the Energuide for Housing audit process.

Furnaces

It is widely believed that residential furnaces throughout the territory are operating, on average, at efficiencies that are significantly lower than optimal across the territory. A study has being undertaken in Watson Lake to quantify the exact nature of the problem and to develop solutions.

Indoor air quality

As housing units have become more efficient, air quality has become a major problem. ESC continues to work with the Yukon Housing Corporation on a public awareness program to educate the public on what they can do to mitigate the effects of a "tight" building. Energy Solutions Centre is assisting the Yukon Housing Corporation through a study being funded by NRCan.

Territorial Energy Standards

ESC has, in cooperation with all levels of government, initiated a study of all commercial buildings built in the Yukon within the last 10 years. This study has been undertaken to determine if there is a need for minimum energy performance standards for commercial buildings in the territory. Data from this study is currently being analyzed.

CORPORATE CITIZENRY HIGHLIGHTS

Scholarships

As a publicly-owned and locally-operated company, Yukon Development Corporation is committed to the people and communities it serves, and to contributing to a sustainable Yukon economy. In partnership with Yukon Energy, we provide several scholarship opportunities for Yukon students.

Yukon Energy Scholarship – General Component – Two-year Scholarship – Value - $4,000 over two years
Each year, Yukon Energy and YDC award these scholarships to two students pursuing studies in natural sciences, technologies, commerce, business administration or engineering for a diploma or an undergraduate degree at an accredited institution in Canada or Alaska. In 2003, the First Year recipients were Mladenka Dokic and Craig Church, and the Second Year recipients were Peter Brown and Amy Darling.

Yukon Energy Scholarship – Francophone Component – Two-year Scholarship
This year, Yukon Energy and YDC in partnership with the Bureau of French Language Services were proud to introduce a Francophone component of these scholarships. Based on the same criteria and evaluation process as the general component, one scholarship is awarded annually to an eligible Francophone student. The scholarship is valued at $4,000 and is dispersed over two years. The first recipient of the francophone component is Marc Beaudin of Whitehorse.

Management Discussion and Analysis

This Discussion and Analysis contains forward-looking statements. While these statements represent management's current judgment, based on current information available, they are subject to risks and uncertainties that could cause actual results to vary. The management Discussion and Analysis should be read in conjunction with the 2003 financial statements.

Financial Highlights

In 2003, the Board of Directors expressed concerns about possible problems with the Centre's financial practices and reporting. Board members requested that this year's audit be carried out by the Office of the Auditor General of Canada.

The audit confirms concerns expressed by the Board. The auditor has raised a number of issues concerning the lack of clear and proper financial reporting and financial management. As well, the Office of the Auditor General has issued a 'qualified opinion', which means that while for the most part it believes the financial statements reflect the financial situation at the Energy Solutions Centre, there are $152,061 in expenses that don't have adequate documents to support the numbers given.

Changes in management as well as improvements in systems and practices have now been made to address the weaknesses identified by the Auditor General and to ensure that better documentation exists in future.

The Office of the Auditor General is expected to submit a full report regarding this audit to the Yukon Legislative Assembly shortly. In the meantime and as was mentioned earlier, changes have been made at the Energy Solutions Centre to strengthen existing systems of internal control, streamline operations and enhance financial reporting practices. The Board is working with both the Auditor General and management to ensure all of the issues identified in the audit are corrected and proper financial management systems are put in place.

You will see this reflected in the 2003 financial statements for the Energy Solutions Centre. Significant improvements have been made from other years, to more clearly show where the Centre gets its money from and where that money is being spent. This was done to improve the clarity, transparency and accuracy of financial reporting.

Earnings has been revised to reflect the fact that government funding is not revenue. Previously, the statements may have given the impression that the Energy Solutions Centre was a profitable venture. The financial statements now properly show the Centre's dependence on government funding. In 2003, the Energy Solutions Centre received $1.7 million in subsidies from Natural Resources Canada and the Yukon Development Corporation. In addition, the Centre showed a loss from operations of $14,459.

The notes to the 2003 financial statements also provide a great deal more disclosure, accountability and transparency. It will be much clearer to the reader as to the amount of money spent on consulting fees, administration costs and the various projects that the Energy Solutions Centre is involved in.

The major focus for the Energy Solutions Centre in 2004 will be to ensure the company operates using appropriate internal control systems and transparent and accountable reporting practices.

The Yukon Development Corporation has renewed the Canada Yukon Energy Solutions Centre agreement for two years. This program will continue to be developed through Energy Solutions Centre Inc. Similarly the Centre will continue to provide support for the Municipal MOU with particular emphasis on the geothermal programs in Mayo and Haines Junction.

Public awareness will be a major focus in the year 2004 through the GreenHog coupon book program. The Centre will continue to promote awareness of energy efficiency issues through its various public awareness programs.

Support for new green projects will continue to ramp up as several projects move into the design phase. The Four Mountains Hotel (Carcross), Canada Winter Games Athletes Village as well as the Whitehorse Waterfront Development Project are amongst the most notable of these projects.

The Centre will continue to support First Nations' initiatives as a number of projects move into the planning phase of development.

Although the Renewable Power Sales Incentive Program has been transferred to the Yukon Energy Corporation the Centre will continue to provide technical support to this program.

Auditor General of Canada
Vérificatrice générale du Canada

AUDITOR'S REPORT

The Honourable Archie Lang
Minister Responsible for the Yukon Development Corporation

I have audited the consolidated balance sheet of the Yukon Development Corporation as at December 31, 2003 and the consolidated statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the *Yukon Development Corporation Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, proper books of account have been kept by the Corporation and by its wholly-owned subsidiaries and the consolidated financial statements are in agreement therewith and the transactions of the Corporation and of its wholly-owned subsidiaries that have come to my notice during my audit of the consolidated financial statements have, in all significant respects, been in accordance with the *Financial Administration Act* and regulations, the *Yukon Development Corporation Act* and the bylaws of the Corporation.

I would also like to bring your attention to the fact that I have included a reservation in the Auditor's Report on financial statements of the subsidiary company, Energy Solutions Centre Inc., for the year ended December 31, 2003. The reservation in my opinion was because that Company could not provide me with sufficient audit evidence to support certain reported expenditures. The reservation of my opinion on the financial statements of Energy Solutions Centre Inc. does not materially affect the financial position and results of Yukon Development Corporation as at and for the year ended December 31, 2003.

Ronald C. Thompson, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 4, 2004

Yukon Development Corporation

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The consolidated financial statements of Yukon Development Corporation are the responsibility of management, and have been prepared in accordance with Canadian generally accepted accounting principles consistently applied and appropriate in the circumstances. The preparation of financial statements necessarily involves the use of estimates and approximations, which have been made using careful judgement. In management's opinion, the consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized in the consolidated financial statements.

Management maintains systems of internal controls designed to provide reasonable assurance that assets are safeguarded and that reliable financial information is available on a timely basis. These systems include formal written policies and procedures, the careful selection and training of qualified personnel, and an organizational structure that provides for the appropriate delegation of authority and segregation of responsibilities.

The financial statements have been examined by an independent external auditor. The external auditor's responsibility is to express an opinion on whether the consolidated financial statements, in all material respects, fairly present the Corporation's financial position, results of operations and cash flows in accordance with Canadian generally accepted accounting principles. In addition, the external auditor reports on whether proper books of account have been kept by the Corporation, the consolidated financial statements are in agreement therewith, and transactions, in all significant respects, are in accordance with the *Financial Administration Act* as applicable, the *Yukon Development Corporation Act* and the bylaws of the Corporation. The Auditor's Report, which follows, outlines the scope of this examination and the auditor's opinion.

The Corporation's Board of Directors, through its Audit and Finance Committee, oversees management's responsibilities for financial reporting. The Audit and Finance Committee meets with management and the independent external auditor to discuss auditing and financial matters, to gain assurance that management is carrying out its responsibilities and to review and approve the consolidated financial statements. The auditor has full and free access to the Audit and Finance Committee, with and without the presence of management.

David Morrison
Chair of the Board

Blaine Anderson
Chief Financial Officer

Whitehorse, Yukon
June 4, 2004

Yukon Development Corporation

Consolidated Balance Sheet

As at December 31, (in thousands of dollars)		**2003**		2002
Assets				
Current assets				
Cash and cash equivalents (note 3)	$	5,402	$	4,142
Accounts receivable (note 4)		4,221		4,871
Inventories		2,575		2,360
Prepaid expenses		572		715
Current portion of investment (note 5)		504		298
		13,274		12,386
Restricted cash (note 6)		**2,845**		3,740
Trust assets (note 7)		**1,252**		6,467
Investments (note 5)		**3,905**		3,813
Reserve for uninsured losses (note 8)		**679**		346
Diesel contingency fund (note 9)		**755**		734
Property, plant and equipment (note 10)		**158,859**		155,979
Deferred charges (note 11)		**6,578**		6,613
	$	**188,147**	$	190,078
Liabilities				
Current liabilities				
Accounts payable	$	3,778	$	6,232
Current portion of long-term debt (note 12)		1,096		1,052
Regulatory liabilities (note 13)		2,518		2,169
		7,392		9,453
Deferred revenue (note 14)		**11,405**		12,265
Trust liabilities		**650**		2,988
Contributions in aid of construction (note 15)		**4,605**		4,356
Long-term debt (note 12)		**41,314**		42,439
Reserve for future removal and site restoration costs		**5,143**		4,875
Diesel contingency fund (note 9)		**755**		734
		71,264		77,110
Equity				
Contributed capital		**41,501**		41,501
Retained earnings		**75,382**		71,467
		116,883		112,968
	$	**188,147**	$	190,078

Contingencies and commitments (note 17)

The accompanying notes are an integral part of the financial statements.

Approved by the Board:

Chair **Director**

Yukon Development Corporation

Consolidated Statement of Operations and Retained Earnings

For the year ended December 31, (in thousands of dollars)	**2003**	2002
Revenue		
Sales of Power	$ 24,095	$ 23,786
Other income	1,071	386
Contribution - Yukon	1,043	808
Finance income	495	529
Contribution - Canada	357	237
Interest income	231	456
	27,292	26,202
Expenses		
Board, corporate stewardship and administration	7,834	7,006
Operations and maintenance	5,265	5,288
Energy market transformation	1,358	928
Interest on long-term debt	1,026	1,227
Energy sector development	294	946
Corporate, environment and First Nations initiatives	238	183
Amortization of property, plant and equipment	5,697	5,442
Amortization of deferred charges	595	478
Provision for uninsured losses	50	50
	22,357	21,548
Net income before rate stabilization	**4,935**	4,654
Rate stabilization	**1,020**	-
Net income	**3,915**	4,654
Retained earnings, beginning of year	**71,467**	66,813
Retained earnings, end of year	**$ 75,382**	$ 71,467

The accompanying notes are an integral part of the financial statements.

Yukon Development Corporation

Consolidated Statement of Cash Flows

For the year ended December 31, (in thousands of dollars)	**2003**	2002
Cash flows from Operating activities		
Cash receipts from customers	$ 26,356	$ 24,284
Cash paid to employees and suppliers	(18,237)	(11,051)
Interest paid	(1,026)	(1,227)
Interest received	726	985
	7,819	12,991
Financing activities		
Decrease in restricted cash	896	702
Decrease in long-term debt	(1,081)	(897)
Decrease (increase) in trust assets	5,215	(2,399)
(Decrease) increase in trust liabilities	(2,339)	325
	2,691	(2,269)
Investing activities		
Property and equipment purchased	(8,328)	(25,696)
(Increase) decrease in long term investments	(297)	226
Increase in reserves	(66)	(220)
Increase in deferred charges	(559)	(2,314)
	(9,250)	(28,004)
Increase (decrease) in cash	**1,260**	(17,282)
Cash, beginning of year	**4,142**	21,424
Cash, end of year	**$ 5,402**	$ 4,142

The accompanying notes are an integral part of the financial statements.

Yukon Development Corporation

Notes to Financial Statements

December 31, 2003 (tabular amounts in thousands of dollars)

1. Authority, objectives and operations

Yukon Development Corporation (the Corporation) was originally established under the *Yukon Development Corporation Act* to participate with the private sector in the economic development of the Yukon, to make strategic investments to the benefit of the territory and to acquire and operate the assets of Northern Canada Power Commission (NCPC) in the Yukon.

In 1993, the Corporation's mandate was changed to restrict its new initiatives to energy-related activities designed to promote the economic development of the Yukon.

The Corporation's wholly-owned subsidiaries, Yukon Energy Corporation (YEC) and Energy Solutions Centre Inc., were incorporated under the Yukon *Business Corporations Act*. Yukon Energy Corporation generates, transmits, distributes and sells electrical energy in the Yukon and is regulated by the Yukon Utilities Board. The mandate of Energy Solutions Centre Inc. is to engage Yukoners in the challenge and potential of energy efficiency and green power as solutions to climate change by mobilizing individuals, businesses, communities and First Nations to implement projects that will reduce greenhouse gas emissions in the Yukon.

Yukon Energy Corporation and Energy Solutions Centre Inc. are exempt from the *Financial Administration Act* (Yukon).

2. Significant accounting policies

Financial statement presentation
The consolidated financial statements of Yukon Development Corporation have been prepared by management and conform to Canadian generally accepted accounting principles. The consolidated financial statements include the accounts of Yukon Development Corporation and its wholly-owned subsidiaries, Yukon Energy Corporation and Energy Solutions Centre Inc. The consolidated financial statements reflect Canadian generally accepted accounting principles and practices of regulatory bodies. All significant inter-company transactions and balances have been eliminated on consolidation. The regulatory accounting practices adopted by Yukon Energy Corporation may differ from the accounting practices otherwise applied in unregulated enterprises. In particular, the timing of Yukon Energy Corporation's recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using generally accepted accounting principles for a non-regulated entity. A description of significant accounting policies follows.

Financial instruments
The Corporation's consolidated financial instruments consist of accounts receivable, investments, long-term receivables and accounts payable, interest payable and long-term debt. Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant interest, currency, or credit risks arising from these financial instruments. Unless otherwise noted, the fair values of these financial instruments approximate their carrying values.

Water Regulation
The Yukon Territory Water Board decides if and for how long Yukon Energy Corporation will have a water licence for the purposes of operating hydro generation stations in the Yukon. The licences will also indicate terms and conditions for the operation of these facilities.

2. Significant accounting policies - continued

Rate Regulation

The Corporation's subsidiary, Yukon Energy Corporation, is regulated by the Yukon Territory Water Board pursuant to the *Yukon Waters Act (Canada)* and the Yukon Utilities Board (YUB) pursuant to the *Public Utilities Act (Yukon)*. The regulatory process begins when Yukon Energy Corporation makes a General Rate Application for its proposed electricity rate changes over the next one or two forecast years. The Yukon Utilities Board must ensure that its decision, which fixes electricity rates, complies with all relevant legislation including the *Public Utilities Act* and directives issued by the Yukon Government through Orders-In-Council that specify how the interests of the customer and the utility are to be balanced.

The YUB follows a two-stage decision process. In the first stage, the total costs that the utility will incur to provide electricity to its customers over the immediate future are approved. The approval of these costs determines the total revenues the utility is allowed to collect from its customers. It is the responsibility of the YUB to examine the legitimacy of three classes of costs:

- the costs to the utility to run its operations and maintain its equipment (personnel and materials);
- the cost associated with the amortization of all capital equipment;
- the return on rate base (the costs related to borrowing that portion of rate base which is financed with debt, and the costs to provide a reasonable rate of return on that portion of rate base which is financed with equity).

As well, in the first stage, the YUB reviews the addition of costs to rate base and assesses these costs for prudence.

In the second stage, the YUB approves how the revenue will be raised. This stage essentially determines the electricity rates for the various customer classes in the Yukon: residential, government, commercial and industrial. This process is guided mainly by a cost-of-service study which allocates utility costs to the various customer classes on the basis of appropriate costing principles. The determination of rates is also affected by Orders-In-Council issued by the Yukon Cabinet, which give specific government direction to the YUB.

Normally, Yukon Energy Corporation applies for rates in advance of the applicable years. A hearing takes place and rates are approved as final as a result of the hearing. Interim hearings and interim rates may be used to deal with unforeseen circumstances.

Inventories

Inventories which consist of materials, supplies and diesel fuel are recorded at average cost.

Yukon Development Corporation

Notes to Financial Statements

December 31, 2003 (tabular amounts in thousands of dollars)

2. Significant accounting policies - continued

Property, plant and equipment
Property, plant and equipment are stated at cost which includes materials, direct and indirect labour, an appropriate allocation of administrative overhead and finance charges capitalized during construction, less accumulated amortization. Amortization is based on the straight-line method over the estimated economic life of the assets as follows:

Generation	
Hydro-electric plants	40 to 65 years
Diesel plants	15 to 25 years
Transmission	25 to 40 years
Distribution	20 to 30 years
Buildings	20 to 30 years
Financial Information System	5 to 10 years
Transportation	8 to 14 years
Other equipment	5 to 15 years

Yukon Energy Corporation capitalizes an allowance for funds used during construction (AFUDC) at the weighted average cost of capital. Upon retirement or disposal, any gain or loss is charged to income in the current year for assets depreciated on an individual basis, or charged to accumulated depreciation for assets depreciated on a pooled basis.

Deferred charges
Deferred charges are recorded at cost less accumulated amortization.

Study costs related to research projects and operations are expensed as incurred. Costs related to potential capital development projects which are abandoned are amortized to earnings on a straight-line basis over five years starting in the year that the project is abandoned.

Costs related to water license renewals are deferred and amortized to earnings on a straight-line basis over the term of the existing license plus the expected term of the renewed license, which is generally a long term arrangement of 25 years.

Generating equipment overhaul expenditures in excess of $250,000 are deferred and amortized to earnings on a straight-line basis over five years. Other deferred charges are amortized to earnings on a straight-line basis over various terms approved by the Yukon Utilities Board.

Investments
Investments classified as current assets are carried at the lower of cost and market value. Other investments are carried at cost less a write-down, if necessary, for any impairment in value which is other than temporary.

2. Significant accounting policies - continued

Diesel fuel price adjustment
With respect to the cost of diesel fuel used in generation, Yukon Energy Corporation is authorized by Order-in-Council 1995/90 to adjust its rates to reflect fluctuations in the price of diesel fuel without the requirement for specific application to and approval of the Yukon Utilities Board. Fluctuations in diesel fuel costs from approval levels are deferred and recovered or refunded over designated future periods prescribed by the Yukon Utilities Board through revised rates charged to customers. The balance at December 31 is disclosed as Rate adjustment receivable (see note 4).

Reserve for uninsured losses
Yukon Energy Corporation maintains a reserve for uninsured losses. An appropriation to the reserve of $50,000 is made annually as a charge to expenses. Uninsured losses are charged directly against the reserve.

Contributions in aid of construction
Certain property, plant and equipment additions are made with the assistance of cash contributions from customers. These contributions are amortized to income on the same basis as the assets to which they relate. Amortization of contributions from customers is shown on the statement as an offset to amortization expense.

Reserve for future removal and site restoration cost
The reserve is calculated based on the estimated cost of demolishing, dismantling, tearing down, or otherwise disposing of the asset, net of expected recoveries. These estimated costs are being provided for over the estimated useful life of the asset on a straight-line basis.

Revenue recognition
Revenue from the sale of power is recognized based on cyclical meter reads. Sales of power includes an accrual for electricity deliveries not yet billed.

Contribution - Canada
Contributions are received from the Government of Canada as part of a contribution agreement between the Corporation and Natural Resources Canada. The purpose of the program is to stimulate energy efficiency and renewable energy technologies. The program is delivered by the subsidiary, Energy Solutions Centre Inc. and revenue is recognized on an accrual basis, when services are performed.

Contribution - Yukon
Contributions were received in 1999 as part of the Yukon Government's commitment to sustainable energy development. These contributions are recognized as income when the eligible expenses are incurred.

Use of estimates
The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. This mainly affects revenue, accounts receivable, property, plant and equipment, the reserve for future removal and site restoration costs and other long-term receivables. Actual results could differ from these estimates.

Yukon Development Corporation

Notes to Financial Statements

December 31, 2003 (tabular amounts in thousands of dollars)

3. Cash and cash equivalents

	2003	2002
Bank balance	$ 1,002	$ 2,393
Short-term investments	4,400	4,674
Bank indebtedness	-	(2,925)
	$ 5,402	$ 4,142

Short-term investments are monies invested in a pooled money market fund. The short-term securities held in the fund have an average maturity less than 90 days. Earnings are distributed monthly on a pro-rata share of the total fund. Annual return on investment for 2003 was 2.83% (2002 - 2.96%).

Yukon Energy Corporation also has a demand line of credit facility with its banker that allows the Corporation to borrow up to $10,000,000 at bank prime. The overdraft facility is guaranteed by the Yukon Government. At year end the Yukon Energy Corporation borrowed nil (2002 - $1,100,000) on the credit facility.

4. Accounts receivable

	2003	2002
Retail energy sales	$ 794	$ 771
Wholesale energy sales	2,289	2,258
Other	1,022	1,586
Rate adjustment receivable	116	256
	$ 4,221	$ 4,871

Accounts receivable includes $2,506,120 (2002 - $2,528,000) due from the Yukon Electrical Company Limited. Yukon Energy Corporation's sales to the Yukon Electrical Company Limited were approximately $16,017,000 (2002- $15,288,000) but, due to the wholesale nature of the sales, Yukon Energy Corporation is not economically dependent on them.

5. Investments

The Corporation's investments are summarized as follows:

	2003	2002
Direct financing leases	$ 4,391	$ 4,082
Leases receivable, net of deferred financing income	18	29
	4,409	4,111
Less: current portion	504	298
	$ 3,905	$ 3,813

In 1990, the Corporation acquired the building known as Old Yukon College from the Yukon Government for a nominal fee. The building was renovated and is being leased back to the Government for a period of 20 years. At the end of the lease term (in 2011) the Government may purchase the building from the Corporation for a nominal fee. Interest from the lease is recognized as finance income. The investment was $3,794,082 in 2003 (2002 - $4,082,222)

6. Restricted cash

Cash is restricted by Government of the Yukon for the purposes of Green Power and Energy Efficiency projects.

7. Trust assets

	2003	2002
Construction contract holdbacks	$ 602	$ 3,479
Rate stabilization fund	-	2,356
Energy infrastructure investment	650	632
	$ 1,252	$ 6,467

Construction contract holdbacks represent holdbacks from payments made to the general contractor on the Mayo to Dawson Transmission Line Project. These will be held by Yukon Energy Corporation pending satisfactory completion of the project, at which time the monies will be released. An offsetting liability is recorded in accounts payable and is equal to the holdbacks held.

On January 16, 2004, Yukon Energy Corporation signed an agreement with the contractor. One of the provisions of this agreement releases the contractor from certain contract requirements related to deficiencies and warranties. In return, the contractor agrees to release claim on $200,000 of the holdback outstanding.

Energy infrastructure investment represents monies held by Yukon Development Corporation on behalf of a Yukon First Nation for investment in energy infrastructure. The ultimate use of these funds is subject to the finalization of necessary investment agreements. An equal offsetting liability is recorded in trust liabilities.

Yukon Development Corporation

Notes to Financial Statements

December 31, 2003 (tabular amounts in thousands of dollars)

8. Reserve for uninsured losses

	2003	2002
Balance, beginning of year	$ 346	$ 291
Provision	(50)	(50)
Losses incurred		
Weather-related	-	72
Asset replacement	383	33
Balance, end of year	**$ 679**	$ 346

Yukon Energy Corporation's target balance for the reserve for uninsured losses is based on Yukon Energy Corporation's past experience. Yukon Energy Corporation will be applying to the Yukon Utilities Board for approval to increase the reserve.

9. Diesel contingency fund

	2003	2002
Balance, beginning of year	$ 734	$ 683
Interest	21	51
Balance, end of year	**$ 755**	$ 734

The Yukon Utilities Board established the Diesel Contingency Fund with Board Order 1996-6. The Fund is administered by Yukon Energy Corporation on behalf of the Yukon Utilities Board, and as such is recorded as a trust asset and a trust liability.

10. Property, plant and equipment

	Cost	Accumulated Amortization	2003 Net book Value	2002 Net book Value
Hydro-electric and diesel plants	$ 132,345	$ 38,001	$ 94,344	$ 93,873
Transmission	51,228	7,739	43,489	12,834
Distribution	11,916	4,174	7,742	6,988
Buildings and other equipment	14,281	5,161	9,120	9,442
Financial information system	1,306	746	560	756
Transportation	1,355	359	996	983
Land and land rights	1,066	-	1,066	677
Construction-in-progress	1,542	-	1,542	30,426
	$ 215,039	**$ 56,180**	**$ 158,859**	$ 155,979

10. Property, plant and equipment - continued

Property, plant and equipment classified as Transmission include a transmission line from the Mayo Hydro Generating Station to Dawson City. This line was constructed to replace diesel generation in Dawson City with hydro-generated power. The project economics are forecasted to be less than the present value of the future costs of operating a diesel plant. As described in note 12, the structure of the project financing ensures that for a given year there is no increase in the total costs to provide electricity to customers. The line was under construction in 2002 and $21.7 million in costs were included in construction-in-progress at December 31, 2002. The line came into service on September 6, 2003.

Total costs incurred to December 31, 2003 are $33.5 million (the Corporation contributed capital assistance to its subsidiary YEC of $5.8 million) . Additional costs will be incurred in the future to correct the deficiencies with the line. Costs incurred to settle claims, by and against the contractor, as described in note 17, will be capitalized. Any recoveries from the contractor will be offset against the project costs.

Yukon Energy Corporation will be applying to the Yukon Utilities Board for approval to include the cost of the line in the rate base.

11. Deferred Charges

	Cost	Accumulated Amortization	**2003** Net book Value	2002 Net book Value
Dam safety review	$ 135	$ 82	$ 53	$ 37
Deferred downsizing costs	334	120	214	248
Deferred overhauls	348	348	-	70
Feasibility studies	843	212	631	522
Regulatory expenses	121	-	121	-
Relicensing	6,350	791	5,559	5,736
	$ 8,131	**$ 1,553**	**$ 6,578**	$ 6,613

Deferred charges have been deferred and amortized in accordance with decisions of the Yukon Utilities Board.

Yukon Development Corporation

Notes to Financial Statements

December 31, 2003 (tabular amounts in thousands of dollars)

12. Long-term debt

The Corporation's long-term debt is summarized as follows:

	2003	2002
Government of Canada		
$40,000,000 flexible term note bearing interest at 7% repayable in annual instalments of $1,000,000 principal, plus accrued interest	$ 28,688	$ 29,057
Great West Life		
$5,750,000 mortgage bearing interest at 11.5%, repayable in monthly instalments of $60,000 interest and principal with the final payment due July 2011	3,806	4,084
TD Canada Trust		
$12,400,000 term note bearing interest at 7.81% payable in monthly instalments of $102,000 interest and principal, with the balance due September 30, 2011. The note is guaranteed by the Yukon Government	9,916	10,350
	42,410	43,491
Less current portion	1,096	1,052
	$ 41,314	$ 42,439

Government of Canada note
The proceeds of the Government of Canada flexible term note were part of the consideration used in 1987 to acquire assets of Northern Canada Power Commission. The note is collateralized by a mortgage against the Whitehorse Generating Station assets.

The terms of the flexible term note provide for payments of principal and interest to be deferred and abated, respectively, if power sales on the Whitehorse-Aishihik-Faro electrical power distribution system are less than specified amounts. After adjusting for abated interest, the effective interest rate on this instrument for 2003 is 2.50% (2002 - 1.90%). For further discussion regarding this instrument, see also note 17(b).

Mortgage payable
The mortgage is secured by land and buildings described in note 10.

12. Long-term debt - continued

Long -term debt repayment

Scheduled repayments for all long-term debt are as follows:

2004	$ 1,096
2005	1,158
2006	1,252
2007	1,348
2008	1,448
Thereafter	36,108
	$ 42,410

Fair value

Fair value of $49,166,000 (2002 - $44,835,000) for all long-term debt was estimated using discounted cash flows based on an estimate of the Corporation's current borrowing rate for similar borrowing arrangements.

13. Regulatory liabilities

	2003	2002
Insurance proceeds held on behalf of ratepayers	$ 744	$ 744
Anvil Range Mine dewater revenue	1,774	1,425
	$ 2,518	$ 2,169

The insurance proceeds held on behalf of ratepayers amount represents the residual balance of insurance proceeds after allocation against all reconstruction and operation and maintenance costs related to a fire at the Whitehorse Rapids Generating Station in 1997. The Corporation is required to use the balance of the insurance proceeds to the benefit of rate payers. The allocation of this amount is subject to the Yukon Utilities Board approval.

Anvil Range Mine dewater revenue derives from Rate Schedule 34 customers, of which the Anvil Range Mine represents the only customer in the class. As directed by the Yukon Utilities Board in Board Order 1998-5, the Yukon Energy Corporation is deferring revenues collected from this rate class until application to the benefit of ratepayers is directed by the Yukon Utilities Board.

Yukon Development Corporation

Notes to Financial Statements

December 31, 2003 (tabular amounts in thousands of dollars)

14. Deferred revenue

	2003	2002
Deferred gain on fire insurance proceeds - capital assets (net of amortization $2,609 (2002 - $2,429))	$ 8,559	$ 8,516
Sustainable energy development funds	2,845	3,746
Deferred lease revenue	1	3
	$ 11,405	$ 12,265

The deferred gain on fire insurance proceeds-capital assets represents the gain resulting from insurance proceeds received in relation to the reconstruction of facilities in excess of net book value of assets destroyed by fire. The gain is being amortized to income at the same rate that the replacement assets are being amortized, as approved by the Yukon Utilities Board Order 2000-3.

In 1999 the Yukon Government provided $6,000,000 towards sustainable energy in the Yukon. Two 10 year programs were established totaling $4,000,000 for green power and energy conservation and efficiency initiatives. $2,000,000 was provided for a wind turbine that was built in 2000. Interest earned on these funds is recorded as deferred revenue.

15. Contributions in aid of construction

	Cost	Accumulated Amortization	2003 Net book Value	2002 Net book Value
Contributions from customers since 1998	$ 1,744	$ 102	$ 1,642	$ 1,397
Pre - 1998 contributions	1,865	634	1,231	1,110
Government of Yukon contributions	2,080	348	1,732	1,849
	$ 5,689	**$ 1,084**	**$ 4,605**	$ 4,356

The sources of contributions recieved prior to 1998 were not recorded separately.

16. Pension costs and obligations

Yukon Energy Corporation has a defined benefit pension plan, which provides pensions based on length of service and final average earnings. The cost of pension benefits is determined using the projected benefits method, prorated on service, and reflects management's best estimates of investment returns, wage and salary increases, and age at retirement. Adjustments resulting from the plan enhancements, experience gains and losses, and changes in assumptions are amortized over the estimated average remaining service life of employees. Pension costs include the current cost of service and amortization of past service benefits and plan enhancements, and experience gains and losses. Amortization is on a straight-line basis over the expected average remaining service life of pension plan members, which is currently 16 years.

16. Pension costs and obligations - continued

Yukon Energy Corporation has contracted with external organizations to provide services of trustee, administrator and investment manager for the pension plan.

An actuarial valuation for funding purposes was performed as of January 1, 2001 by the consulting actuarial firm AON Consulting Inc. The results of the January 1, 2001 valuation have been projected to December 31, 2003 in accordance with generally accepted actuarial standards. The actuarial valuation includes services rendered by members under the Yukon Energy Corporation Employees Pension Plan from January 1, 1998 to December 31, 2003 and service credits in respect of pre-1998 service transferred to the Yukon Energy Corporation Employees Pension Plan from the Canadian Utilities Employees Pension Plan under the Acknowledgement and Agreement between Yukon Energy Corporation and the Yukon Electrical Company Ltd., dated February 5, 1999.

The fair value of the plan assets is based on market values as reported by Royal Trust as at December 31, 2003.

The following table sets out the assumptions and pension amounts as at December 31, 2003. The Corporation's employees had the option to belong to the Corporation's defined benefit pension plan or a Registered Retirement Savings Plan (RRSP). Employees joining the Corporation after January 1, 2002 can only join the RRSP. As at December 31, 2003, the Corporation's defined pension plan had 42 members, and the RRSP had 28 members.

Pension benefits are based on:

- years of pensionable service,
- the average annual earnings during any 5 consecutive years of pensionable service where earnings are the highest, and
- the average of the years maximum pensionable earnings (Canada Pension Plan) for the same 5-year period

Annual cost of living increases to a maximum of 3.00% are provided to pensioners. The Corporation contributes amounts as prescribed by an independent actuary.

Employees make contributions to the plan as follows:

- 3.5% of earnings up to the year's maximum pensionable earnings
- 5.0% of earnings in excess of year's maximum pensionable earnings to a maximum of $2,500 per year.

16. Pension costs and obligations - continued

Information about the company's defined benefit plan as at December 31, in aggregate, is as follows:

	2003	2002
Discount rate	6.50%	6.50%
Expected long-term rate of return on plan assets	7.00%	7.00%
Assumed rate of salary escalation	3.75%	3.75%
Expected average remaining service life of employees	16 years	16 years
Benefit obligation determined by actuarial valuation	$ 6,241	$ 5,516
Fair value of plan assets	4,827	4,018
Plan deficit	$ (1,414)	$ (1,498)
Accrued benefit liability	$ (424)	$ (223)
Pension expense	$ 438	$ 335
Employer contributions	$ 237	$ 207
Employee contributions	$ 83	$ 89
Benefits paid	$ 43	$ 64

The accrued benefit liability has been recorded on the Corporation's books of account and is included in accounts payable on the balance sheet at December 31, 2003.

17. Commitments and contingencies

(a) Mayo to Dawson City transmission line project

As discussed in note 10, Yukon Energy Corporation completed the construction of the Mayo to Dawson City transmission line project during 2003. Subsequent to energization of the line, Yukon Energy Corporation and the general contractor notified each other that they have numerous claims arising out of the agreement and the construction of the line. These claims total several million dollars on a net basis. To date, no legal action has commenced. The parties are documenting their claims and once the documentation is complete, they have agreed to meet to select an appropriate legal process to resolve the outstanding issues. To date, Yukon Energy Corporation has not received sufficient information to assess the Corporation's exposure.

(b) Federal Transfer Agreement

Most of the assets of Yukon Energy Corporation were purchased under a March 31, 1987 Agreement of Purchase and Sale between the Government of Canada ("Canada"), Yukon Energy Corporation, the Government of Yukon ("YTG") and Northern Canada Power Commission ("NCPC") (the "Transfer Agreement"). There are a number of claims that the Corporation has against Canada under the Transfer Agreement. Subsequent to year end, Canada made a demand on Yukon Energy Corporation under the Transfer Agreement more specifically in relation to amounts it alleges are owing to it under the Flex Term Note described in note 12. The various claims are described below:

17. Commitments and contingencies - continued

I. Canada's claims against Yukon Energy Corporation

(i) Claim on the Flexible Term Note

On March 5, 2004 Canada made a demand on Yukon Energy Corporation for an amount it alleges the Corporation owes pursuant to the Flex Term Note referred to in note 12. The Flex Term Note provides for payments of principal and interest to be deferred and abated if particular power sales are less than specified amounts set out in the Flex Term Note. Since 1998 when the Faro Mine shut down, Yukon Energy Corporation has paid the Government of Canada pursuant to the formula under the Agreement without including secondary sales (a program of sales at reduced rates on an interruptible basis). Pursuant to its demand letter, Canada has taken the position that secondary sales should be included in the calculation. Yukon Energy Corporation has informed Canada that it disputes Canada's claim. Canada's claim is for principal of $252,000, interest of $511,000 and penalty interest.

II. Yukon Energy Corporation claims against Canada

(i) Claim against Canada arising from requirement to obtain a fish authorization in relation to the Aishihik Facility

In January, 2004, Yukon Energy Corporation filed a Writ of Summons against Canada for damages caused by a breach of the Transfer Agreement arising from Canada's notification of the Corporation in May, 1999 that the Aishihik Facility required an authorization under the Fisheries Act. Yukon Energy Corporation alleges the requirement for a fish authorization was contrary to Canada's representations and warranties under the Transfer Agreement. More particularly it alleges it reasonably relied on warranties and representations given by Canada under the Transfer Agreement to the effect that Yukon Energy Corporation had all authorizations necessary for the generation of electricity from the Aishihik Facility. As a result, the Corporation incurred significant costs and expenses in negotiating and obtaining a Fisheries Act authorization for the Aishihik Facility and further, its ability to use the Aishihik Facility has been restricted by the terms of the authorization.

(ii) Soil contamination at the Whitehorse Facility

Yukon Energy Corporation has notified Canada of a claim it has for indemnification for expenditures it incurred on site restoration at the Whitehorse Rapids Dam site for hydrocarbon contamination caused by a diesel fuel spill which occurred in 1979 when Canada owned the facility. This contamination was discovered in 1999 and was remediated in 2000. The Corporation's claim for indemnification arises under the Transfer Agreement.

Yukon Energy Corporation has had numerous discussions with representatives of the Government of Canada in an effort to establish a process to resolve all of the outstanding claims under the Transfer Agreement. These discussions are at preliminary stage. The outcome and potential resolution of the various claims outlined above are not known at this time.

(c) Rate Stabilization Fund

On October 17, 2001, the Yukon Government announced the continuation of the Rate Stablization Fund until 2005 with the Yukon Development Corporation required by OIC 2001/147 to contribute up to $7,800,000 of internally generated funds before April 1, 2005. At December 31, 2003, Yukon Development Corporation had contributed $1,123,647.

Yukon Development Corporation

Notes to Financial Statements

December 31, 2003 (tabular amounts in thousands of dollars)

18. Environmental liabilities

The Corporation's activities are subject to various federal and territorial laws and regulations governing the protection of the environment or to minimize any adverse impact thereon. The Corporation conducts its operations so as to protect public health and the environment and believes its operations are materially in compliance with all applicable laws and regulations. Liabilities will be recorded when the occurrence of an environmental expenditure, related to present or past activities of the Corporation, is considered probable and the costs can be reasonably estimated. To date, no such specific liabilities have been recorded in the Corporation's accounts.

19. Comparative figures

Certain 2002 figures, which are presented for comparative purposes, have been reclassified to confirm with the current year's presentation.

20. Non-consolidated financial information

The nature and size of operations of the corporation and its subsidiaries, Yukon Energy Corporation and Energy Solutions Centre Inc., differ substantially. Audited financial statements of Yukon Energy Corporation and Energy Solutions Centre Inc. for the year ended December 31, 2003 are also prepared and included in Yukon Development Corporation's annual report.

Auditor General of Canada
Vérificatrice générale du Canada

AUDITOR'S REPORT

Mr. David Morrison,
Chair, Energy Solutions Centre Inc.

I have audited the balance sheet of Energy Solutions Centre Inc. as at December 31, 2003 and the statements of income and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

Except as explained in the following paragraph, I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

The Company has recorded expenses of $ 152,061 that it could not satisfy me were incurred for services on behalf of the Company. Of this amount, $ 102,881 was incurred without adequate evidence that work was performed. Invoices totalling this amount were paid despite a lack of documentation that services were provided. Also included in the $ 152,061 were expenses of $ 49,180 that were beyond the limits set out in contracts with suppliers. The Company could not provide me with evidence supporting the payment of these expenses.

In my opinion, except for the effects of adjustments, if any, which I might have determined to be necessary had I been able to satisfy myself that all expenses reported were proper charges to the Company as described in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Further, in my opinion, except for the lack of adequate evidence to support all expenses reported and payment of unauthorized expenses, proper books of account have been kept by the Company and the financial statements are in agreement therewith. The transactions of the Company that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the *Business Corporations Act* and the bylaws of the Company.

The financial statements as at December 31, 2002 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated March 25, 2003.

Ronald C. Thompson, CA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 4, 2004

energy solutions centre

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements were prepared by management in accordance with Canadian generally accepted accounting principles using methods appropriate for the industry in which the Corporation operates. Financial statements necessarily include some amounts that are based on informed estimates and best judgments of management. The financial information presented elsewhere in the annual report is consistent with that in the financial statements.

The opinion of the Corporation's auditor notes that, "except for the lack of adequate evidence to support all expenses reported and payment of unauthorized expenses, proper books of account have been kept by the Company and the financial statements are in agreement therewith." During 2004, changes in management as well as improvements in systems and practices have been made in order to address the weaknesses identified by the auditor.

The Board of Directors oversees management's responsibilities for financial reporting. The Board meets regularly with management and the independent auditor to discuss auditing and financial matters to assure that management is carrying out its responsibilities and to review the financial statements. The auditors have full and free access to the Board of Directors and management.

Erik Hoenisch, CA
Chief Financial Officer

Energy Solutions Centre Inc.

Balance Sheet

As at December 31,	2003	2002
Assets		
Current		
Cash	$ 41,485	$ -
Accounts receivable	285,273	91,633
Work in progress (note 3)	75,878	118,832
Prepaid expenses	8,440	1,560
Current portion of leases receivable (note 4)	10,753	10,058
Advances to related parties (note 5)	-	60,196
	421,829	282,279
Leases receivable (note 4)	6,531	15,668
Capital assets (note 6)	187,571	132,601
	$ 615,931	$ 430,548
Liabilities		
Current		
Bank overdraft	$ -	$ 52,789
Accounts payable and accrued liabilities	161,702	155,481
Advances from related parties (note 5)	267,065	-
	428,767	208,270
Deferred capital funding (note 10)	63,585	84,240
	492,352	292,510
Shareholder's Equity		
Share capital		
Authorized: unlimited number of common shares without par value		
Issued: 1 common share	100	100
Retained earnings	123,479	137,938
	123,579	138,038
	$ 615,931	$ 430,548

Commitments (note 12)

The accompanying notes are an integral part of the financial statements.

On behalf of the Board:

_____, Chair

_____ Director

Energy Solutions Centre Inc.

Statement of Operations and Retained Earnings

For the year ended December 31,	2003	2002
Revenue		
Yukon International Wind Conference	$ 100,031	$ 16,771
Program delivery	76,564	49,916
Project management fees	50,327	-
Finance and lease rental income	20,416	1,816
Course fees and equipment rental	15,038	58,938
	262,376	127,441
Expenses		
Consulting fees (note 8)	914,780	736,500
Administration (note 9)	520,528	390,119
Yukon International Wind Conference	86,306	22,062
Travel	87,078	58,339
Energy project costs not recovered (note 3)	82,170	-
Rent (note 11)	65,870	59,037
Office and general	58,081	50,724
Equipment rental, materials and supplies	54,311	15,405
Advertising and promotion	40,371	41,259
Grants	33,604	46,467
Amortization	26,858	20,482
Telephone	11,539	9,323
Professional fees	9,935	11,736
Training courses	6,827	13,152
Board of Directors	2,707	4,714
Vehicle operations	4,898	2,481
	2,005,863	1,481,800
Net results from operations before funding from Yukon Development Corporation	**(1,743,487)**	**(1,354,359)**
Funding from Yukon Development Corporation (note 10)	**1,708,372**	**1,402,311**
Amortization of deferred capital funding (note 10)	**20,656**	**11,478**
Net results of operations after Yukon Development Corporation funding	**(14,459)**	**59,430**
Retained earnings, beginning of year	**137,938**	**78,508**
Retained earnings, end of year	**$ 123,479**	**$ 137,938**

The accompanying notes are an integral part of the financial statements.

Energy Solutions Centre Inc.

Statement of Cash Flows

For the year ended December 31,	2003	2002
Cash flows from operating activities:		
Cash received from customers	48,320	43,867
Cash paid to suppliers and employees	(1,936,708)	(1,504,422)
Interest received	20,416	1,816
Cash received from Yukon Development Corporation	1,708,372	1,402,311
	(159,600)	(56,428)
Cash flows from investing activities:		
Increase in advances from related parties	327,261	77,623
Decrease (Increase) in lease receivables	8,442	(25,726)
Purchases of capital assets	(81,829)	(48,721)
	253,874	3,176
Increase (decrease) in cash	**94,274**	(53,252)
Cash (bank overdraft), beginning of year	**(52,789)**	463
Cash (bank overdraft), end of year	**$ 41,485**	$ (52,789)

The accompanying notes are an integral part of the financial statements.

Energy Solutions Centre Inc.

Notes to Financial Statements

December 31, 2003

1. Nature of Operations

Energy Solutions Centre Inc. (the "Company") is incorporated under the *Yukon Business Corporations Act* as a wholly-owned subsidiary of Yukon Development Corporation ("YDC"), a Yukon Crown corporation and is exempt from income tax. The Company operates the Canada Yukon Energy Solutions Centre as a service and program delivery agency for the Federal and Yukon governments. It promotes, coordinates and facilitates energy programs and projects with an overall goal to create energy cost savings and reduce greenhouse gas emissions. The Company relies upon private and public sector interaction to identify projects and initiatives and typically engages technical consultants and contractors to provide technical and program outreach services on a project specific basis.

2. Significant Accounting Policies

The financial statements of the Company have been prepared by management and conform to Canadian generally accepted accounting principles. A description of the significant accounting policies follows.

(a) Capital assets

Capital assets are stated at cost. Amortization is provided on the straight-line basis at the annual rates which approximate the useful life of the assets:

Asset	Rate
Computer hardware	20%
Furniture and fixtures	7%
Automotive	8%
Computer software	15%
Alternative energy equipment	10%
Equipment held for leasing	term of lease

(b) Revenue recognition

Revenue derived from program delivery is recognized when services are provided.

The Company enters into lease agreements with customers as a means of financing the implementation of energy projects; mainly heating installations to displace fossil fuel heating processes. Utilization of this energy efficient equipment will result in lower operating costs for the customers with forecast payback periods being within the terms of each lease. Much of the equipment is specific to customer location or application and is not readily transferable to alternate installations.

Lease contracts in which the risks and benefits of ownership are transferred to the customers are recorded as lease receivables (refer to Note 4). Finance income derived from these leases is deferred and recognized over the term of the lease in a manner that produces a constant rate of return.

For leases to customers in which the risks of ownership remains with the Company due to a higher credit risk, the leased equipment is recorded in capital assets and depreciated over the term of the lease (refer to Note 6). Rental income is recorded on an accural basis. Upon completion of the lease, the ownership of the equipment will be transferred to the customer.

(c) Funding provided by YDC

Funding is recognized by the Company and invoices are issued to YDC on an accrual basis for when services are provided. (Note 10)

(d) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of financial statements, and the reported amounts of revenues and expenses and funding from YDC during the reporting period. This mainly affects accounts receivable, leases receivable and capital assets. Actual results could differ from those estimates.

3. Work in Progress

Work in progress consists of energy related projects undertaken for commercial customers. By contractual agreement these costs will be billed to customers when the project is complete and recovered from project savings. Projects deemed unlikely to proceed have been expensed in 2003. As these costs were not provided for in the funding arrangement with the parent, these costs will not be recovered. The Company retains the right to recover these costs from customers if or when projects do proceed.

4. Leases Receivable

	Interest Rate (%)	2003	2002
Leases receivable - with terms up to 5 years - repayable in blended monthly payments	6.75 - 7.00	18,445	28,503
Less: Deferred finance income		1,161	2,777
		$ 17,284	$ 25,726
Current portion of leases receivable		**10,753**	**10,058**
Leases Receivable		**$ 6,531**	**$ 15,668**

5. Advances to (from) Related Parties

The amounts advanced to (from) related parties are non-interest bearing, unsecured and have no specified terms of repayment. Advances are intended to be temporary and are used to manage cash requirements.

	2003	2002
Yukon Development Corporation	$ (207,665)	$ 126,090
Yukon Energy Corporation	(59,400)	(65,894)
	$ (267,065)	$ 60,196

Energy Solutions Centre Inc.

Notes to Financial Statements

December 31, 2003

6. Capital Assets

	Cost	Accumulated Amortization	2003 Net book Value	2002 Net book Value
Computer hardware	$ 91,314	$ 41,440	$ 49,874	$ 67,084
Furniture and fixtures	32,385	4,524	27,861	23,867
Automotive	31,435	3,982	27,453	30,072
Computer software	11,197	3,862	7,335	9,014
Alternative energy equipment	9,250	1,362	7,888	2,564
Equipment held for leasing	67,724	564	67,160	-
	$ 243,305	$ 55,734	**$ 187,571**	$ 132,601

7. Financial Instruments

The Company's financial instruments consist of accounts receivable, advances to related parties, leases receivable, bank overdrafts, accounts payable and accrued liabilities. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these instruments.

The fair values of all financial instruments approximates their carrying values.

8. Consulting fees

The major programs for which consulting fees were incurred are:

	2003	2002
Geothermal research and development	$ 281,203	$ 204,760
Alternative and renewable energy	244,188	92,712
Community outreach and technical support	182,410	161,798
Commercial and municipal energy audit services	95,339	119,354
Green building research, design and support	43,698	88,582
Industry policy and standards	33,979	39,022
Energy efficiency household appliance and GHG initiatives	33,963	30,272
	$ 914,780	$ 736,500

9. Administration

Administration expense consists of:	2003	2002
Management service contracts	$ 271,986	$ 237,879
Wages and benefits	200,499	123,677
Consulting and administrative expenses to sister company	9,580	3,361
Other administrative services	38,463	25,202
	$ 520,528	$ 390,119

Management service contracts represent amounts paid under long term contracts with the Managing Director and Chief Financial Officer. Wages and benefits expense includes a provision for wages of YDC employees engaged in ESC activities.

10. Economic Dependence

The majority of the Company's funding for operations is provided by its parent, YDC, as the Energy Solutions Centre fulfills the role of program delivery agent for many YDC initiatives; even though no formal funding agreement is in place. Funding from YDC represents 86% of the Company's combined revenue and funding for the year ended December 31, 2003 (2002 - 91%) and was provided by:

Funding From YDC:	2003	2002
Yukon Development Corporation - operating funding	$ 896,567	$ 813,871
NRCan - CY/ESC project (via YDC)	195,312	181,250
Green Power Fund (administered by YDC)	535,399	396,259
Energy Efficiency Fund (administered by YDC)	81,094	10,931
Total Funding from YDC	**$ 1,708,372**	$ 1,402,311

Yukon Development Corporation has entered into a contribution agreement with Natural Resources Canada for the Canada-Yukon Energy Solutions Centre project. Current agreement terms apply for the period of April 1, 2003 - March 31, 2005. The agreement enables YDC to be reimbursed for eligible costs related to energy program delivery, promotion and training initiatives.

The portion of funding from YDC used to purchase depreciable assets in 2001 for the Canada Yukon Energy Solutions Centre project is recorded on the balance sheet as deferred capital funding and is amortized on the same basis as the related capital assets.

Energy Solutions Centre Inc.

Notes to Financial Statements

December 31, 2003

11. Related Party Transactions

The following summarizes the Company's related party transactions for the year:

	2003	2002
Services provided to Yukon Energy Corporation	$ 192,313	$ 11,500
Services received from Yukon Energy Corporation	9,580	3,361
Rent paid to parent corporation	$ 65,870	$ 59,037

At the end of the year the amounts shown due from and due to a wholly-owned subsidiary of the parent company were as follows:

Acounts receivable	$ 141,844	$ -
Accounts payable	71,195	59,368

These transactions are in the normal course of operations and are measured at the exchange amount which is the amount of consideration established and agreed to by the related parties.

The Directors and some Officers of the Company are also Directors and Officers of the Company's parent.

The Company is related in terms of common ownership to all Government of Yukon departments, corporations, and agencies. In addition to those related party transactions disclosed elsewhere in these financial statements, the Company enters into transactions with related entities in the normal course of business.

12. Commitments

In the normal course of business, the Company enters into contracts with service providers to assist with program delivery objectives. The contracts define milestones for performance and permit the Company to cancel without penalty subject to the terms of the agreement.

13. Comparative figures

Certain of the 2002 comparative figures have been reclassified to conform to the current years presentation.

PHOTOGRAPH CREDITS

Cover image - Dan LeBrun

Inset photos - Cathie Archbould

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Yukon Development Corporation

energy solutions centre